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CONDITIONS IN THE WOMEN'S GARMENT INDUSTRY

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ECONOMIC BACKGROUND

Real growth in the output of goods and services in the U. S. economy slowed in 1986 for the third successive year. The measure of Gross National Product corrected for price changes rose only 2.1 percent for the year as a whole, a substantial decline from the 2.7 percent growth registered in 1985.

Fourth quarter growth, slightly over 0.3 percent, was the result of an increase in non-farm inventories rather than in realized demand. Put another way, consumer and capital spending fell off in the last quarter and the registered growth was in inventory accumulation.

Early, although still spotty, data for the initial months of 1987 indicate a further slowing in a number of critical economic components. Some of this reflects borrowing from this year's sales in the latter quarters of 1986, some of it a generalized slowing in the economy. Although it is still not clear whether these factors will lead to a recession this year, there is little reason to expect much more than continued sluggishness in 1987.

A review of some of the critical elements of 1986 GNP underline the essential flatness in the economy:

* most significant in our consumer-led economy is the severe slowing in consumer spending in the final quarter. Incentive programs to move inventories of big ticket items were less effective in the fourth quarter than in the second and third quarters, despite the fact that state and local sales taxes could still be deducted from 1986 incomes.

* capital spending declined and was also down for non-residential structures. Capital equipment outlays rose slightly from quarter to quarter during the year, although they were down five percent over 1985.

* the negative merchandise trade balance went up by more than $20 billion for the year as a whole, despite the relative decline in the dollar against some other currencies.

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* aside from the usual year end government purchases of farm products, federal government outlays showed little change, while state and local government spending flattened out at year end.

Personal income slowed steadily over the four quarters of 1986. The wage and salary component of personal income, 60 percent of the total, made smaller gains from quarter to quarter, as industry sought to lower costs to help the corporate bottom line. Such actions cut into national purchasing power.

Gains in hourly earnings in manufacturing slowed sharply. After rising 3.3 percent in 1985, earnings grew at only a 2.4 percent annual rate in the first half of 1986 and at 1.2 percent in the second half. Real earnings of workers are down 10 percent over the last seven years.

Retail sales, which had shown some important improvements in real terms in the first three quarters, levelled out in the fourth quarter, with durable goods showing an absolute decline in that quarter. However, compared to a year earlier, sales were ahead in 1986.

In January 1987, retail sales dropped a record 5.8 percent against December 1986 sales, the sharpest since 1967, as far back as Commerce Department records extend. Most of the fall occurred in auto sales, which plunged 22.4 percent in the month. The sharp drop in auto sales continued in February.

Industrial production rose slightly in 1986 as did manufacturing output. Although non-agricultural civilian employment as a whole continued to rise, the number of production workers in manufacturing declined as it has throughout the Reagan Administration. At the end of the fourth quarter of 1986, it was 1.2 percent below the levels of a year earlier.

The unemployment rate, both total and civilian only, declined slightly, while the total manhours worked by production workers in manufacturing remained flat throughout the year. The Consumer Price Index registered a small 1.3 percent rise at year end over the prior year, but rose by 0.6 percent in January, 1987 or at an annual rate of 7.2 percent.

Durable goods orders dropped a sharp 7.5 percent in January, despite a 51 percent rise in defense orders. Excluding defense, durable goods orders were down a record 9.9 percent for the month. Non-defense capital goods orders, the indicator of business investment in the economy, were down by 19.7 percent. These data led the Department of Commerce to reconsider its earlier view that manufacturing was expected to pick up in 1987. After rising in January, industrial output declined sharply in February.

The merchandise trade deficit continued to grow in January as higher trade deficits underlined the failure of the government's two-year policy of lowering the relative value of the dollar in order to cut trade deficits. The announcement at the end of February that Brazil could not pay the interest charges on $68 billion of its $108 billion of debt emphasized once again the tenuous nature of the foreign debt contracted by U.S. banks.

Two measures of consumer confidence, those of the Conference Board and the University of Michigan, declined sharply in early 1987. Economists at the National Retail Merchants Association earlier this year predicted soft retail sales for the first half of the year and perhaps for the entire year.

Installment credit, another critical measure of consumer activity, grew more moderately in 1986 than in prior years. The slower growth stems from the provisions of the new tax law, which makes consumer debt interest decreasingly deductible over the next few years and then eliminates it entirely.

A new kind of debt, however, appears to be in the process of being substituted on a massive scale as home equity loans have increasingly begun to replace other debt forms. Interest on loans on real estate equity is deductible under the new tax law. Such loans jumped to $200 billion last year. The huge rise in real estate debt can, however, have serious consequences, such as large scale foreclosures, in a sharp economic downturn.

Total debt -- federal and private -- increased to more than $7 trillion in 1986, rising a trillion dollars last year alone. Two decades ago, the national total was a trillion dollars. Debt now equals 1.7 times GNP, the sum of all goods and services produced, the highest ratio since the great depression. With about three-fourths of the debt in the private sector, corporate balance sheets have weakened, resulting in a sharp increase in business failures.

The number of highest rated industrial and utility corporations has dropped in the last ten years from 56 to 27, while corporate bond issues deemed to be speculative has risen from 9 percent to 21 percent of the market. According to a recent Federal Reserve Board study, "many firms are highly leveraged and would be vulnerable to adverse economic or financial developments."

Rising corporate bankruptcies are affecting the financial system as banks and other thrift institutions default. Last year, the Federal Deposit Insurance Corporation closed 138 banks, the most since the 1930s. This is a substantial increase over 116 closings in 1985 and only 42 in 1982, officially characterized as a recession year. According to FDIC Chairman Seidman, more than 150 banks are expected to fail this year even absent a recession. Seidman noted that "there are 1500 problem banks on our list", up from 1150 a year ago.

Former presidential economic adviser Alan Greenspan asserts that since 1980 household liabilities have risen faster than household assets and now reflect one-third of after-tax income. In the agricultural sector, borrowing delinquencies represent 36 percent of 261,000 borrowers and 80 percent of these troubled farmers have delinquencies of more than 36 months. The percentage of home loans being foreclosed has doubled in the last four years.

In the government sector, the rapidly mounting federal debt - it has doubled to $2 trillion in the last six years - took nearly 14 percent of the fiscal 1986 budget to service, up from 9 percent in the early 1980s. Last year the federal government spent more on debt servicing than on all major health programs. For every two dollars spent on the military, one dollar was spent on debt.

RETAIL SALES

Though the economy was losing steam as 1986 progressed, consumers were willing to continue spending even if they had to reduce savings and increase borrowing in order to do so. The nation's retailers were able to register a 4.5 percent gain in overall sales as a result. Price levels for goods declined 1.0 percent

in the wake of price cuts for fuel and energy as well as some price cutting to keep general inventories lean. Real retail sales advanced 5.6 percent.

Some of the driving force in retailing came from upscale buying habits of middle to upper income families. Among the types of retailers that did better than average in 1986 were jewelry stores, confectionery shops, eating and drinking establishments and stores selling cameras, radios and television equipment. Also doing well were building material, furniture, paint and wallpaper stores.

Among outlets with less than average gains were meat, fish and vegetable stores, variety stores and appliance dealers. Gasoline stations and fuel dealers showed sharp declines because of price drops.

Retail sales also varied widely in the different regions of the country, reflecting the economic situation in each area. The New England and Middle Atlantic regions were well ahead of the average gain for 1986, while the Southwest and parts of the Midwest lagged behind. The West coast performance was about average.

In summary, durable goods stores across the nation chalked up a 9.1 percent gain during 1986, 9.2 percent in real terms. Non-durable goods dealers' sales rose only 1.8 percent in actual dollars but 3.2 percent in real terms after allowance for the price drop of 1.4 percent.

The use of such incentives as manufacturer rebates and below-market interest rates to encourage consumers instead of price cuts tends to distort retail trade statistics. Unlike retailer discounts which are reflected in the store records, indirect incentives are not. Hence, such sales tend to be overstated.

RETAIL SALES OF WOMEN'S AND CHILDREN'S WEAR* BY TYPE OF OUTLET
(in millions of dollars)

Period	Total Sales	Department Stores	Women's Specialty Stores	Family Clothing Stores	Other Retail Outlets
1973	$27,974	$12,308	$9,336	$2,502	$3,828
1980	49,019	20,409	17,097	5,060	6,453
1981	54,872	23,188	19,053	5,805	6,826
1982	58,961	24,477	20,618	6,571	7,295
1983	64,755	26,460	22,966	7,349	7,980
1984	71,189	29,335	25,414	7,794	8,646
1985	76,314	30,765	28,589	8,388	8,572
1986	81,434	32,393	31,021	8,976	9,044

* Data include traditional products of the women's garment industry as well as millinery, furs, hosiery, gloves and other accessories.

SOURCE: ILGWU Research Department (benchmarked to 1967, 1972, 1977 and 1982 Census of Business).

Retail sales of women's and children's wear moved ahead 6.7 percent in 1986. Promotions led to a 0.7 percent reduction in retail prices of women's and children's wear. Real sales rose 7.5 percent, a fairly strong showing in the light of performance in recent years.

The strongest showing among women's and children's wear outlets last year was made by the specialty shops. Department stores and other outlets had lower than average gains.

Sales of women's and children's wear are continuing strongly in 1987. The decline in purchases of automobiles and other durables has made funds available for soft goods purchases and this factor, together with generally favorable weather, is boosting garment sales.

This January, sales of women's and children's wear were 9.2 percent higher than a year ago. After allowing for price changes, real sales were up 8.2 percent. Data for February were not yet available as this report was being printed, but indications are that the January momentum continued.

PRODUCTION OF WOMEN'S AND CHILDREN'S WEAR

Higher clothing consumption did little to benefit production activity in women's and children's wear in 1986. Preliminary estimates made by the ILGWU Research Department indicate that the physical volume of output of women's and children's wear declined slightly less than 1 percent from its 1985 level. Of course, the data are subject to revision later this year when the government releases detailed production data for 1986.

Women and children's wear dropped nearly 20 percent since its peak in 1979 and is 15 percent down over the last 20 years. If the population rise of 41 percent over the last two decades is taken into account, our industry has actually fallen behind over 75 percent.

For many years, monthly production data have been collected by the Bureau of the Census only for a limited number of women's outerwear items. The data collection process has been plagued by reporting errors and late filings. The limited information that was available was inadequate to properly judge domestic developments in connection with the administration of the government's import control program.

To remedy this situation a new quarterly report from the Census Bureau will be forthcoming later this year. While it will no longer make available monthly information, it will provide more detail, including information on children's wear and intimate apparel.

The December 1986 monthly data are, therefore, the last to be published in this form. They reveal mixed developments in 1986. Output of women's knit sport shirts rose 3.8 percent over 1985. Men's sweater production gained 15.8 percent, while women's sweater output dropped 4.7 percent. The combined sweater totals were virtually unchanged.

Production in 1986 was down for all other items for which data are collected. Skirt output was off 4.1 percent, tailored jackets 8.3 percent, slacks and

UNIT PRODUCTION OF SELECTED WOMEN'S AND MISSES GARMENTS AND PHYSICAL VOLUME OF OUTPUT, WOMEN'S AND CHILDREN'S APPPAREL INDUSTRY

(in millions)

Period	UNIT PRODUCTION									
	Coats	Suits @	Tailored Jackets	Dresses	Blouses	Knit Sport Shirts	Skirts	Slacks & Jeans	Sweaters *	Total Output#
1966	27.7	11.6	N.A.	321.3	223.2	49.2	131.1	110.9	147.0	$9,065
1976	21.9	37.9	19.0	227.5	288.0	119.6	58.1	288.5	139.3	$8,821
1979	20.8	29.7	21.1	252.5	406.8	162.5	75.3	303.3	119.6	$9,413
1980	19.7	22.2	25.6	250.3	402.3	161.2	86.1	319.4	119.2	$9,288
1981	16.4	16.2	37.0	209.6	390.5	138.6	114.3	328.3	137.9	$8,867
1982	13.5	14.5	41.5	189.0	396.2	161.6	118.8	315.5	132.5	$8,595
1983	13.1	14.2	38.8	179.9	407.7	133.9	114.8	329.7	131.2	$8,431
1984	13.3	12.0	33.3	174.9	356.5	128.2	110.3	308.6	130.5	$8,114
1985	11.5	11.6	27.2	167.3	335.1	111.8	105.9	298.7	139.9	$7,647
1986	9.8	N.A.	24.9	145.1	302.9	116.1	101.6	270.7	140.0	$7,580

N.A. — Not available
@ Suits including pant-suits
* Sweaters for women and men
# Physical volume of output of women's and children's apparel industry expressed in 1967 value.
SOURCE: U.S. Bureau of the Census and ILGWU Research Department (benchmarked to 1963, 1967, 1972, 1977 and 1982 Census of Manufactures).

jeans 9.4 percent and blouses were down 5.6 percent. Dress production in 1986 declined 13.2 percent while coat output was 15.0 off from the 1985 level.

Specific data are not available for 1986 but trade information suggests that output of children's wear and some sportswear items fared better than those for which data was collected. Intimate apparel output was apparently soft.

Early indications are that 1987 will also be a weak year for apparel production. Retailers are continuing to divert their purchases to imports and domestic orders are soft. Any severe setbacks to the economy as a whole could aggravate the impact on domestic producers and their workers.

IMPORTS

For the seventh straight year, women's and children's wear imports soared to new highs in 1986, with garments made from cotton, wool and man-made fibers

gaining 17.4 percent over 1985. These measurements are in terms of equivalent square yards of fabric (SYE) used in the manufacture of the garments. Imports of all apparel of the three traditional fibers rose 13.4 percent in 1986.

This growth does not reflect the increase in imports of garments made out of silk, linen and ramie fibers or their blends. Until August 1986, silk, linen and ramie fiber or their blends were not controlled by the Multifiber Arrangement (MFA) or major bilateral agreements. Shipments soared as importers attempted to get around quotas on cotton, wool and man-made fiber garments.

The 1986 advances in women's and children's wear imports were broadly based. Garments made of cotton rose 17.9 percent, those of man-made fibers were ahead 17.3 percent and those of wool were up 11.1 percent in the year. Knit garment imports rose 21.5 percent over 1985 levels and women's and children's wear of woven fabric gained 13.9 percent.

Because of their exclusion from controls, import data were not collected for silk, linen and ramie products on a detailed basis consistent with the data for the three traditional MFA fibers. The data problem has since been compounded by the development of new categories applicable to the newly covered MFA fibers. The new data, available only since August 1986, lack historical comparisons. Meaningful comparisons will be possible only after data have been collected for over a year.

Data on total imports of women's and children's wear by country are not conveniently obtainable. Information on the origin of all apparel made of cotton, wool and man-made fibers, however, is readily available.

In 1986, as in past years, shipments were dominated by a handful of countries. Hong Kong, Taiwan, Korea and China accounted for 60 percent of all U.S. apparel imports, while the top ten Asian shippers represented over 80 percent of apparel imports. The Caribbean Basin Initiative countries (CBI) provided 6 percent of our imports and the European Community only 3 percent.

The persistent domination of our market by the handful of large shippers frustrates any effort to provide access to lesser developed nations without further weakening our already decimated domestic industry.

Shipments from individual countries reflect a host of political and economic factors. Again, judging from the data for all apparel made of the three main fibers, 1986 shipments varied widely. Among the big four shipping countries, Hong Kong was off by less than 1 percent, Taiwan was ahead by 5 percent and Korea by 10 percent. China was way in front with an extraordinary 68 percent increase over 1985.

China has quickly moved from fourth place to second place among the large shippers of apparel to the United States and appears to be number one so far in 1987. Of the 15 nations next in line after the big four, only two countries -- Thailand and Japan -- had declines in their shipments to the U.S. The remaining 13 countries chalked up gains ranging from 7 to 31 percent.

Many smaller exporting nations continued to rapidly expand their shipments of apparel in 1986. Shipments from Egypt increased more than fourfold and those from Chile more than tripled. Imports of apparel from Jamaica, Mauritius, the

IMPORTS OF SELECTED WOMEN'S AND CHILDREN'S GARMENTS
(in thousands of units)

Product	Year 1981	Year 1982	Year 1983	Year 1984	Year 1985	Year 1986
Coats & jackets, cotton	19,774	18,935	18,528	23,085	24,892	27,312
" " " wool	2,300	2,229	3,276	4,343	5,001	5,637
" " " synthetic	31,744	39,915	42,645	43,578	42,325	47,660
TOTAL	53,818	61,079	64,448	71,007	72,217	80,609
Suits, wool	654	1,018	1,390	1,413	1,175	1,526
" synthetic	2,112	2,955	4,963	5,503	5,187	6,409
TOTAL	2,766	3,973	6,353	6,916	6,361	7,935
Dresses, cotton	9,396	9,397	12,280	16,063	17,798	20,547
" wool	1,109	415	1,022	2,109	1,741	2,321
" synthetic	15,839	13,798	21,599	25,626	30,401	36,144
" silk (non-ornamented)	1,697	1,563	2,385	3,304	3,218	3,013
TOTAL	28,041	25,172	37,286	47,101	53,159	62,025
Blouses, cotton	118,007	125,985	140,055	164,373	195,727	244,657
" wool	7,968	5,186	7,166	10,060	8,382	9,672
" synthetic	96,686	107,699	123,598	128,085	168,270	215,333
" silk (non-ornamented)	5,402	4,272	6,094	10,684	9,883	11,669
TOTAL (c)	228,064	243,142	276,913	313,203	395,382	490,093
Knit shirts (a), cotton	47,488	54,144	57,799	71,303	63,177	82,608
" " synthetic	126,803	137,109	170,522	158,221	149,596	178,068
TOTAL	174,290	191,253	228,321	229,523	212,773	260,676
Sweaters (b), cotton	5,651	8,900	10,000	15,189	20,820	23,745
" wool	27,519	31,055	34,392	42,063	44,338	41,387
" synthetic	112,608	115,244	128,981	136,211	145,850	148,398
TOTAL (c)	149,035	161,556	187,622	242,638	325,956	350,092
Skirts, cotton	14,327	14,740	19,530	25,501	27,495	37,767
" wool	1,287	1,556	2,933	4,206	5,224	8,309
" synthetic	5,944	7,038	13,980	15,685	18,254	32,614
TOTAL	21,559	23,334	36,443	45,392	50,973	78,689
Slacks & shorts, cotton	106,626	99,845	140,596	149,269	157,908	187,846
" " " wool	1,348	1,552	2,200	3,131	4,990	4,433
" " " synthetic	75,482	107,224	97,166	112,308	136,832	161,888
TOTAL (c)	184,537	209,390	240,748	265,970	301,234	355,035
Playsuits, cotton	21,230	23,157	24,100	34,631	40,212	46,171
" synthetic	7,911	7,126	9,493	14,144	16,428	26,707
TOTAL	29,141	30,283	33,593	48,776	56,639	72,878
Raincoats (b), cotton	1,995	2,044	2,332	3,927	2,440	2,188
" synthetics	4,764	4,578	4,445	7,534	9,406	10,836
TOTAL	6,759	6,623	6,777	11,460	11,846	13,024
Dressing gowns & robes, cotton	2,487	3,349	4,196	4,528	6,004	6,152
" " " " wool	7	8	10	20	41	29
" " " " synthetic	2,046	2,015	2,418	3,625	2,994	4,692
TOTAL (c)	4,572	5,406	6,689	8,270	9,193	11,067
Nightwear & pajamas, cotton	10,678	11,803	13,130	14,730	18,762	22,026
" " " synthetic	2,735	4,755	6,570	10,314	16,102	22,630
TOTAL (c)	13,423	16,585	19,742	25,111	34,931	44,780
Underwear, cotton	28,368	45,980	70,313	65,846	90,950	88,500
" wool	227	263	250	294	324	284
" synthetic	40,693	38,109	50,978	87,929	92,088	114,816
TOTAL (c)	69,502	84,654	121,857	154,855	184,700	206,257
Brassieres, cotton	1,178	1,640	3,244	2,800	9,180	7,753
" synthetic (c)	150,922	136,239	144,733	149,281	159,825	157,825
TOTAL	152,100	137,879	147,976	152,080	169,006	165,579
Girdles & corsets, cotton	54	23	38	68	110	457
" " " synthetic (c)	7,752	7,445	9,546	13,036	15,560	10,707
TOTAL	7,806	7,468	9,584	13,104	15,670	11,164
Infants' sets (d), cotton & synthetic	36,634	35,999	43,964	61,054	72,648	79,880
Swimwear, synthetic	8,059	9,247	9,949	12,090	15,149	17,411
Tops & vests, cotton & synthetic	13,160	9,453	8,393	12,358	12,033	11,327
Body suits & shirts, synthetic	1,564	2,684	5,289	5,728	4,814	4,540
Coveralls (e), synthetic	812	908	1,165	1,514	2,668	3,698
Judo/karate suits, cotton & synthetic	190	273	293	476	1,027	746

(a) Excludes knit tops
(b) Men's, women's and children's
(c) Includes garments of silk and other fibers not shown separately
(d) Up to and including 2 years of age
(e) Includes overalls and jumpsuits

SOURCE: U.S. Bureau of the Census (imports for consumption)

Maldives, Peru and Burma more than doubled, while those from Turkey, Costa Rica, Panama, Guatemala, Hungary and Cyprus rose between 50 and 99 percent.

Imports from the CBI countries rose 31 percent last year. Agreements being concluded with these countries are permitting virtually unlimited access for garments made out of fabric produced and cut in the United States, although there is no way to accurately identify the country of origin of cut fabric parts, given the kind of questionable controls established by the government.

The decline in the value of the dollar has had relatively little impact to date on apparel imports. The currencies of the major shipping nations of the Far East tend to move in line with the dollar and prices of their goods have not gone up significantly.

The major impact of the devaluation has been against the currencies of western Europe and Japan. Apparel imports from the EC slowed in the course of 1986 and for the year as a whole were only ahead 5 percent. However, the EC accounts for only 3 percent of our total imports of apparel and the development had little overall impact. In recent years, apparel imports from Japan have declined steadily and represented 1.9 percent of imports in 1986.

Data on imports of specific items of women's and children's wear in 1986 also reflect import strength. Of the 21 products for which data are available, 16 showed gains in 1986. Dress imports were ahead by 73 percent and skirt imports rose 54 percent. Coverall shipments were up by 39 percent. Imports of playsuits, nightwear, suits, blouses, knit shirts, and robes and dressing gowns advanced between 20 and 29 percent.

Imports of slacks and shorts, swimwear, underwear, coats and infants' sets increased from 10 to 18 percent. Raincoat and sweater imports rose less than 10 percent. On the downside last year were imports of brassieres, bodysuits, tops and vests, judo and karate suits and girdles and corsets.

Import developments for 1987 are still largely unknown. Preliminary data for January indicate that apparel imports of the three traditional fibers rose 1.9 percent over January 1986. As in 1986, strong gains are being shown by some of the smaller shipping nations.

Survival of our domestic industry can no longer depend on administrative action in Washington nor on natural developments. Each passing year leaves our industry in weaker and weaker condition, offering fewer jobs to workers for whom alternative employment does not exist. Once again we must look to industry-specific legislation as a defense against importers and retailers whose only goal is ever higher profits.

In response to the needs of the apparel and textile industry, the Textile and Apparel Trade Act of 1987 has been introduced in the current Congress by a large number of sponsors. The bill eliminates some provisions of the prior version that had passed both houses of the Congress by substantial majorities, but had met with objections in some Congressional circles. Last year's bill failed to override the President's veto in the House on a close vote.

The new bill applies to all countries without exceptions. It allows a one percent growth in each category of imports each year based on 1986 levels, with

the Administration given the authority to allocate the quota among countries. It provides for a tariff reduction to compensate for the impact of the restraints on exporting nations, in line with the provisions of the General Agreement on Tariffs and Trade (GATT).

While the bill is less restrictive than would be desirable for the defense of our industry, it is a major step forward from present government import policy. The alternative is growing economic disaster for thousands of American apparel workers.

EMPLOYMENT, MANHOURS AND PAYROLLS

Activity in women's and children's wear in 1986 was sluggish and uneven. The total number of production workers declined 0.1 percent over the 1985 level. A 1.0 percent increase in the length of the average work week last year led to a 0.8 percent increase in the total number of hours spent in the shops by the industry's workers. Average weekly earnings rose 2.5 percent in 1986 while the industry's payrolls moved ahead 2.3 percent.

Viewed in broader terms, the 1986 standstill in employment activity appears to be merely a brief respite in the long-term decimation of the number of jobs in the industry. Compared to 1980 employment, 1986 was 14.3 percent behind. Viewed against 1973, when the industry's employment was at its peak, last year's employment level was 25.3 percent lower. This represents a removal from the American economy of over 160,000 critically needed jobs.

While overall activity sagged, performance in two branches of our industry improved last year. The number of production workers in children's outerwear rose 3.9 percent over 1985. Even greater gains took place in knit outerwear, where employment was 9.3 percent ahead of the prior year. While any increases in employment are gratifying, they must be viewed in perspective. Knit outerwear employment was only on a par with five year-ago levels and 13.5 percent below 1973. Children's outerwear was still 22.4 percent below 1973.

Elsewhere in our industry, activity continued to drop in 1986. Production worker employment in the dress industry fell another 3.5 percent. The dress branch now employs only 42 percent of its 1973 work force. Blouse employment was off 2.8 percent and in coats, suits and skirts 2.1 percent.

Other outerwear (comprising a variety of women's sportswear items such as pants, shorts, swimwear as well as washable service apparel) declined 0.6 percent after four years of growth. In intimate apparel, activity was off across the board. 1986 employment was down by 1.6 percent in corsets and brassieres, 1.5 percent in underwear and nightwear and 4.0 percent behind in knit underwear.

Early 1987 developments are largely a continuation of 1986 patterns. Employment in knit outerwear rose 10.9 percent this January as against January 1986, but the children's outerwear gain slowed to 0.4 percent. The number of production worker jobs was off 7.9 percent in dresses, 2.9 percent in blouses, 2.4 percent in coats, suits and skirts and 0.3 percent in other outerwear. January employment was down 9.4 percent in corsets and brassieres, 3.6 percent in underwear and nightwear and 2.0 percent in knit underwear.

EMPLOYMENT, MANHOURS, AND PAYROLLS, WOMEN'S AND CHILDREN'S GARMENT INDUSTRY

AVERAGE EMPLOYMENT OF PRODUCTION WORKERS

Period	Coat, Suit Skirt	Dress	Blouse	Knit Outerwear (*)	Child. Outerwear	Other Outerwear	Corset, Brassiere	Underwear Nightwear	Knit Underwear (*)
1973	64,500	183,700	45,900	70,200	68,900	102,000	24,700	72,800	28,700
1980	57,100	127,900	54,100	59,400	55,100	120,400	13,900	62,100	26,700
1981	53,200	121,300	55,000	60,000	54,700	123,400	14,200	62,500	26,300
1982	47,900	110,900	52,200	55,400	52,000	117,700	12,100	58,600	24,200
1983	47,100	105,600	51,300	54,100	51,000	124,200	12,200	58,100	24,700
1984	42,400	96,600	50,000	57,000	53,900	134,400	12,300	58,300	23,300
1985	36,700	80,700	44,600	55,500	51,500	140,600	11,400	53,100	20,700
1986	35,900	77,800	43,400	60,600	53,500	139,800	11,200	52,300	19,800
Jan'86	33,200	78,900	44,500	56,000	53,400	143,900	11,700	52,700	19,600
Jan'87	32,400	72,700	43,200	62,100	53,600	143,400	10,600	50,800	19,200

MANHOURS OF PRODUCTION WORKERS (in millions)

Period	Coat, Suit Skirt	Dress	Blouse	Knit Outerwear (*)	Child. Outerwear	Other Outerwear	Corset, Brassiere	Underwear Nightwear	Knit Underwear (*)
1973	109.7	307.6	80.0	134.6	123.1	182.6	44.6	132.3	54.6
1980	97.1	202.6	92.7	114.2	97.9	209.2	24.1	113.4	49.4
1981	90.2	197.6	93.8	112.5	99.0	216.6	25.4	114.1	47.5
1982	78.1	179.9	89.7	101.7	92.1	199.9	20.4	102.8	41.9
1983	80.1	173.1	88.9	100.6	91.4	222.4	21.8	106.4	46.3
1984	72.7	160.1	86.8	106.5	98.7	241.1	22.7	107.6	43.6
1985	62.8	136.3	77.7	104.8	94.3	251.7	20.4	97.7	38.0
1986	62.8	132.5	76.5	116.1	99.6	247.2	19.8	97.6	39.0
Jan'86	5.0	11.9	6.7	9.6	8.9	22.2	1.7	8.5	3.3
Jan'87	4.6	10.6	6.5	10.0	8.3	21.9	1.5	7.8	3.1

PAYROLLS OF PRODUCTION WORKERS (in millions of dollars)

Period	Coat, Suit Skirt	Dress	Blouse	Knit Outerwear (*)	Child. Outerwear	Other Outerwear	Corset, Brassiere	Underwear Nightwear	Knit Underwear (*)
1973	$347.1	$906.5	$209.6	$389.0	$314.3	$481.7	$120.1	$321.9	$144.5
1980	489.2	953.7	399.0	535.6	417.9	930.0	105.9	464.1	225.4
1981	490.9	1,002.7	436.9	567.4	450.6	1,032.7	121.3	508.5	234.5
1982	444.0	946.5	427.8	534.1	436.2	991.7	103.9	476.3	216.6
1983	476.7	953.7	436.1	555.4	438.5	1,129.6	115.1	511.4	246.6
1984	448.8	912.1	439.2	615.9	488.8	1,261.0	126.4	535.4	241.8
1985	405.3	790.4	398.9	635.0	477.9	1,343.8	120.2	505.6	216.5
1986	402.8	780.2	390.4	739.4	514.2	1,318.6	122.0	510.1	229.6
Jan'86	32.2	69.9	34.8	59.4	45.7	119.4	10.9	44.3	19.3
Jan-87	29.4	62.9	32.8	64.8	43.3	119.3	9.3	41.6	19.1

* Men's and women's garments

SOURCE: U.S. Bureau of Labor Statistics and ILGWU Research Department estimates

Detailed data are not yet available for February. Preliminary data for the entire apparel industry indicate that employment fell by 0.4 percent compared to February 1986. In the wake of sluggish activity in the apparel industry, unemployment has again begun to rise. This February the overall apparel unemployment rate was 11.1 percent compared to 9.8 percent a year ago.

HOURLY EARNINGS

The disastrous economic situation in the domestic women's and children's wear industry has placed an undue share of the burden on garment workers. This is shown by the data on hourly earnings in the various branches of the industry as collected by the Bureau of Labor Statistics. The data are for unionized as well as nonunion shops and do not include fringe benefits.

The latest data currently available are for January 1987. They show that the largest gain over the January 1986 level -- 24 cents an hour -- took place in

AVERAGE HOURLY EARNINGS, WOMEN'S GARMENT AND OTHER SELECTED INDUSTRIES

Industry	Jan. 1981	Jan. 1982	Jan. 1983	Jan. 1984	Jan. 1985	Jan. 1986	Jan. 1987
WOMEN'S GARMENTS							
Coats, Suits, skirts	$5.24	$5.57	$5.75	$6.13	$6.22	$6.44	$6.34
Dresses	4.99	5.19	5.42	5.62	5.79	5.88	5.91
Blouses	4.53	4.85	4.89	5.00	5.18	5.20	5.06
Knitted outerwear*	4.97	5.23	5.49	5.65	5.94	6.21	6.45
Children's outerwear	4.49	4.76	4.78	4.92	5.09	5.15	5.20
Other outerwear	4.70	4.93	5.04	5.23	5.33	5.38	5.54
Corsets, brassieres	4.62	5.00	5.11	5.53	5.68	6.24	6.19
Underwear, nightwear	4.37	4.65	4.78	4.91	5.19	5.22	5.35
Knitted underwear*	4.83	5.05	5.30	5.50	5.68	5.84	6.06
MEN'S CLOTHING							
Suits, coats	5.65	6.07	6.07	6.41	6.68	6.70	6.71
Shirts, nightwear	4.44	4.73	4.74	4.89	5.06	5.17	5.30
Separate trousers	4.69	4.91	5.05	5.17	5.39	5.30	5.31
Work clothing	4.45	4.69	4.95	5.04	5.20	5.45	5.58
ALL MANUFACTURING	7.73	8.42	8.70	9.09	9.44	9.70	9.83
NON-DURABLE GOODS	6.96	7.68	7.98	8.28	8.62	8.86	9.08
DURABLE GOODS	8.24	8.93	9.24	9.65	9.99	10.27	10.38
Automobiles	10.67	11.28	11.74	12.57	13.39	13.66	13.66
Primary metal industries	10.35	11.22	11.57	11.41	11.55	11.81	11.86
Printing, publishing	7.90	8.59	8.96	9.28	9.60	9.85	10.16
Rubber and plastic products	6.97	7.52	7.89	8.19	8.50	8.69	8.88
Cotton fabrics	5.49	5.90	6.37	6.71	6.85	7.10	7.37
Silk and synthetic fabrics	5.56	6.07	6.45	6.88	7.04	7.29	7.62
Wool fabrics	5.43	5.92	6.32	6.71	6.91	7.18	7.64
COAL MINING	11.17	12.39	13.27	14.50	15.18	15.39	15.72
BUILDING CONTRACTORS	9.60	10.49	10.71	10.77	11.11	11.29	11.48

* Men's and women's garments
SOURCE: U.S. Bureau of Labor Statistics

knitted outerwear, partly a reflection of the heightened activity in that sector. Hourly earnings were ahead 22 cents in knitted underwear and 16 cents in other outerwear (which includes a variety of women's sportswear items such as pants, shorts, swimwear as well as washable service apparel).

A smaller gain of 13 cents an hour took place in underwear and nightwear. Hourly earnings rose 5 cents in children's outerwear and 3 cents in dresses. Average hourly earnings this January were down 5 cents in corsets and brassieres and off 10 cents an hour in the coat, suit and skirt branch. The largest setback -- 14 cents -- took place in the blouse industry.

Inadequate growth in earnings was also evident in other of the industry's sectors. Earnings this January in men's coats and suits and separate trousers were only one cent ahead of last year while the gain in shirts, nightwear and work clothing was 13 cents an hour. In manufacturing as a whole, earnings also rose only 13 cents an hour.

COMMENTARY

Current efforts to force a decline in the relative value of the dollar to arrest the growing merchandise trade deficit have been tried unsuccessfully by three other Administrations since 1971. There is no reason to expect that this Administration will be more successful than Presidents Nixon, Ford and Carter.

Aside from the attempt to use a simplistic solution for a complex problem and the effect of the intensification of international money speculation, current policy to establish "favorable" exchange rates by administrative action is in direct contradiction to the Administration's professed belief in the market mechanism. This contradiction is ignored by policy makers, the academic community and the press who profess belief in the free market mechanism.

In this comment, the second of two on this subject, the past failures to correct the merchandise trade imbalance by pushing the dollar down will be analyzed along with the question of why the current attempt should not be expected to succeed any more than those in the past.

President Nixon in August 1971 cut the dollar loose from gold, in effect devaluing the dollar, in an effort to reverse a growing merchandise trade deficit. In 1971, the deficit had reached $4.8 billion. It rose to $9.6 billion the following year and early in 1973 the "free float" of major world currencies began, essentially at the insistence of the U.S. government.

The basic premise of Nixon's policy was that a decline in the dollar's relative value would reverse the trade imbalance. With the oil crisis beginning in the latter part of 1973, the deficit was in fact reversed that year, registering a small $2.8 billion positive balance, somewhat less than the rise in that year in U.S. exports of crude materials and fuels.

With the exception of the $1.8 billion positive balance in 1975, when the 1973-75 recession ended, the merchandise trade deficit was negative during all subsequent years, with relatively small declines in the growth rate in two of the years. It soared to $10.4 billion in 1974 and to $17.3 billion in 1976. In the Nixon and Ford years, policy was to actively intervene to force the dollar down. The float of currencies came to be known as "the dirty float".

Early in the Carter Administration, Treasury Secretary W. Michael Blumenthal initiated a policy of "talking down the dollar", sometimes also referred to as the policy of "benign neglect." The free fall of the dollar did not arrest the trade deficit, however. In 1977 it rose to $39.2 billion, in 1978 to $42.4 billion, and in 1979 it was $40.0 billion. It dropped to $36.4 billion in the 1980 recession year.

Not only was the policy not working, but the precipitous decline in the dollar was rekindling domestic inflation. The Consumer Price Index went up 27.5 percent between 1976 and 1979 and in 1980 alone it was up 13.5 percent. Sharply rising inflation threatened the ability of the U.S. Treasury to attract funds from abroad. The economy went into recession as the Carter Administration came to an end, leading to the sharpest downturn since 1929 in the second year of the Reagan Administration.

In October 1979, in the course of a meeting of the International Monetary Fund in Belgrade, Yugoslavia, the newly appointed Federal Reserve Board Chairman, Paul Volcker, rushed back to Washington to reverse the Blumenthal policy, which had been accepted by his predecessor and had led to the uncontrolled fall of the dollar. Blumenthal was sacked as Treasury Secretary. However, it took until 1981 to restore the dollar to its 1973 level.

True to its macho image of itself, the Administration initially encouraged a higher dollar. Between 1981 and 1985, the value of the dollar was up by 31 percent. But the merchandise trade deficit rose more rapidly, reaching $148.5 billion in 1985 and $170 billion in 1986. In March 1985, the Administration reversed itself and began to force down the value of the dollar.

The new policy, however, has not checked the trade imbalance in the last two years in which it has been followed. In large measure, this failure stems from the fact that the Reagan Administration's actions in the economic sphere have brought with them some very substantive changes in the economy, making it difficult if at all possible to reverse the situation in the short term.

Among these changes is the Administration's assault on the industrial structure of the United States. The policy of deindustrialization followed by the Administration has wreaked havoc with large sections of U.S. manufacturing. Accompanied by a trade policy that has discouraged domestic investment, the Reagan policy has made an increase in merchandise exports difficult to realize, even assuming that demand from abroad exists for such an increase.

In addition to causing a decline in manufacturing, the Administration's massive budget deficits over the last six years -- more than $1 trillion and still rising -- threaten serious price increases, making the dollar less attractive abroad as an investment. Interest rates have been kept down by policies which have limited wage increases, but they are beginning to show signs of rising. Foreign-based investment has been the major source for financing the budget deficit over this Administration's six years of high deficits.

The Administration has painted the U.S. economy into a corner; to get out of it will not only be extremely difficult, but can take place only with a basic change in economic policy and even then can take considerable time.

Investment in manufacturing structures and equipment has never approached the levels touted by the Administration to justify its 1981 tax law giveaway to the wealthy. Instead, as has been pointed out in these pages, the tax savings for

the rich have been used for increased speculation and not for investment. Nor has investment been sufficient to turn around the trade picture or the economy.

FRB Chairman Volcker has suggested that for the U.S. to be in a position to export enough to wipe out the trade deficit it would be necessary to increase manufacturing output by 30 percent over the next five years. "We are not investing in industry at a rate to support that growth," Volcker says. He anticipates that a continued fall in the dollar will discourage investors abroad from buying U.S. government securities, leading to higher interest rates that would further depress domestic business investment.

However, it remains an open question whether increasing domestic output of itself will make the U.S. more competitive. Further, rather than act to correct domestic imbalances, particularly the federal budget deficit, while waiting for a fall in the dollar to make U.S. business more competitive abroad, the Administration has been pushing West Germany and Japan to stimulate their domestic economies. The expectation is that such stimulation would lead to increased purchases from the United States.

Both of these countries have been reluctant to follow Washington's advice in large measure out of fear that stimulation at the level the Reagan Administration is seeking could rekindle severe inflation in their countries. The incredible inflation in Germany in the mid 1920s and in post-World War II Japan justifies this view in the minds of these countries' leaders. They also suggest, although less publicly, that the Administration's irrational economic policies are responsible for the problem and that they should not be called upon to resolve them at great cost to their own nations.

With respect to Japan, it could be argued that Japanese imports of U.S. output would not increase significantly with the kind of stimulation sought by the Administration even if Japan's severe non-tariff barriers to imports were removed. The Japanese people, it is argued, know in their heart of hearts that their products are superior to those of other nations, whether or not it is true. The German market is only about one-third that of Japan and cannot be expected to make as important a contribution as Japan.

The Administration's assault on our nation's working people in the last six years, the efforts to break the trade union movement, the decline in real income, the continuation of historically high levels of unemployment and so on are also important factors in assessing the dollar and trade. The consistent effort to reduce the purchasing power of the large mass of consumers in our economy -- consumers who are also workers -- continues to be a serious challenge to domestic economic growth.

Furthermore, the Administration actively opposes legislation that could encourage domestic investment by insuring the ability of domestic companies to maintain a reasonable share of the U.S. market. It negotiates trade agreements with other countries or follows trade policies that give away ever greater shares of the U.S. market to foreign nations.

In sum, the Administration's policies are responsible for the depth of the trade problem and for the inability to find a fix. Also, to expect other countries to solve the problems created by deliberate policy, regardless of the effect on their own economies, is expecting too much. Even assuming that Germany and Japan agreed with Washington's proposals and put them into effect, it remains questionable whether this will solve our nation's trade problem.

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CONDITIONS IN THE WOMEN'S GARMENT INDUSTRY

October 8, 1987

ECONOMIC BACKGROUND

For the fourth consecutive year since the recovery began early in 1983, real growth in Gross National Product in the first half of 1987 continued at a much lower level than in prior recoveries. This measure of the nation's output of goods and services adjusted for price changes has also grown more slowly than Administration projections.

The current recovery should be distinguished from previous upswings in that it has resulted from and is being sustained by two novel elements: the highest peacetime federal budget deficits and the highest peacetime military buildup. These characteristics raise questions as to whether the recovery can be sustained, which is assessed in Commentary section, starting on page 12.

Real economic growth in this year's first quarter was up 1.09 percent over the last 1986 quarter and continued to move up in the second quarter, but at a lesser 0.61 percent. From what are still very fragmentary data from the just completed third quarter, real growth appears to have continued the pattern.

Personal consumption expenditures dropped in the first quarter, overwhelmingly the result of a sharp 5.3 percent curtailment in durable goods purchases. Despite the revival of automobile rebate and low interest programs, the recovery of durable goods purchases in the second quarter left them below those of the last two quarters of 1986. Non-durable purchases rose slightly in the first quarter, but dropped in the second .

Private domestic investment, the motor force of economic growth, went up sharply in the first quarter, but rose far more slowly in the second. Normally, such growth would be considered to reflect a healthy upcoming economy. However, increases in business inventories more than account for the total growth, while elements that would aid long-term growth declined.

Thus, total non-residential and residential fixed investment dropped a sharp 3.3 percent in the first quarter and rose 1.7 percent in the second quarter. Outlay for the second quarter was still below that in the last quarter of

1985. Despite the growing shortage in housing, residential construction was down in both quarters.

Projections by the Department of Commerce show flattening in anticipated investments for the rest of the year, despite an increased rate projected as recently as May. The latest projection was completed in August, prior to the rise in interest rates, and may result in an additional decline in investment.

The rise in the discount rate to 6 percent has led to a spate of interest rate increases in a number of sectors, the most obvious being in mortgage rates. In the first two weeks of September, fixed mortgage rates were up to 11 percent, two points higher than in the spring. Expectations are that they will rise another 0.5 percent by yearend.

Higher mortgage rates are curbing sales of existing homes and new building. New home sales are currently running 10 percent below first quarter levels and the National Association of Home Builders says they will drop another 8 percent by yearend. Sales of existing homes are anticipated to equal last year's 3.6 million units, but an increase over 1986 is no longer expected.

Exports of goods and services showed considerable increases in the first two 1987 quarters. However, these increases were more than negated as imports in dollar terms continued to rise, in part the result of both price rises and quality upgrading.

In the first seven months of 1987 over the like 1986 period, the merchandise trade deficit was up 4 percent. The Administration has claimed for thirty months that the managed decline of the dollar would set the trade balance aright. There are, however, no signs of such a reversal in the trade imbalance.

Federal government purchases of goods and services declined in the first quarter and went up in the second quarter, although not enough to counter the sharper first quarter decline. The drop was only in non-military areas, with military outlays rising in both quarters. State and local governments spent less in the first quarter, but recovered in the second.

Profits continued to rise in each of the two quarters, while per capita personal disposable income, which went up 0.5 percent in the first quarter, dropped 1.0 percent in the second. Real employee compensation was up less than 1.0 percent in the first quarter and was flat in the second.

Real sales at retail showed a similar stagnant situation as other elements in the economy, dropping in the first quarter, but recovering in part in the second. The same pattern appears to be developing in the third quarter, with July and August real sales rising only 1.6 percent over the like 1986 period.

Durable goods sales in real terms were down 6.0 percent in the first quarter and up 3.6 percent in the second, still below last year's last two quarters. Most of the increase came from special price and interest deals offered by the auto industry in the second quarter. Non-durable sales were flat in real terms in the first two quarters and into July and August.

The index of manufacturing production, which has shown an upswing in recent quarters, was up 1.1 percent in the first quarter over last year's fourth and

up again 0.9 percent in the second 1987 quarter. This growth continued in July and August. How much of the rise in output results from replenishing run-down inventories will be clarified when quarter-end data are released.

Non-agricultural civilian employment advanced in the first two quarters and in July and August. With the long-term decline in manufacturing employment mitigated only slightly in recent months, the largest share of newly created employed has been in service-related industries.

As studies on wage levels of new employment have shown, service-related jobs pay 60 to 80 percent of the average manufacturing wage. Replacement of higher paying jobs with those that pay less means a lowering of living standards and must affect the economy as consumers are able to purchase less.

While the data show that unemployment has declined, definitional and measuring problems remain. Workers not looking for employment are not considered unemployed nor are increasing numbers of those working short hours who prefer to work regular hours considered partially unemployed.

Reflecting what has been identified as possible inventory replenishment, average weekly hours of production workers rose slightly in the first 1987 quarter, declined in the second and rose in the first two months of the third.

Finally, consumer price increases, which had been relatively low in recent years, began to rise in the second quarter and have continued to increase in July and August. The rise in August was especially high, averaging 0.5 percent nationally or 6.0 percent on an annual basis. Price increases in the major cities averaged considerably higher.

RETAIL SALES

To date, 1987 retail sales have been disappointing. Overall sales in the first eight months are only 4.7 percent higher than last year. Approximately half this gain, however, is the result of the quickened tempo of price advances. Once inflation is factored out, the real gain was 2.3 percent.

Not since the 1981-82 recession has there been so little progress in retail sales. By way of contrast, the gain last year was 5.4 percent in current dollars. Since prices in 1986 actually fell 1.0 percent, there was a 6.5 percent increase in real terms.

The global data obscure some of the diverse developments in the various retail sectors. In addition to other factors, the ever-widening gap between America's rich and poor in recent years has had an impact on consumer behavior and in turn is mirrored in the sales of various types of stores.

Retailers catering to upscale buying habits of middle and upper income consumers did well in 1987. Stores catering to low and moderate income families fared less well. The latter's customers felt the pressures of lower real take-home pay, high outstanding debt and uncertainty about the future.

Department stores chalked up a 5.4 percent gain in overall current-dollar sales through August while the less expensive variety stores and other general

merchandise outlets advanced only 2.8 percent. Restaurants and bars were up 8.2 percent. Double-digit gains were registered by stores specializing in the sale of hardware, shoes, sporting goods, books, jewelry, optical goods, stationery and flowers.

Food store sales were ahead only 3.2 percent in the first eight months of 1987, compared to a year back, while gasoline station sales were about even. Sales of stores dealing in furniture and home furnishings were up 7 percent while those of radio, TV and appliance merchants were up about 5 percent.

Overall, sales of durable goods stores moved ahead 5.2 percent in actual dollars and 3.9 percent in real terms in the January-August period. Even this modest performance is an overstatement because of the widespread use of rebates and below-market interest rates to boost sales of big-ticket items such as automobiles. The full price of such merchandise is recorded, not the net cost to the consumer. Sales of non-durable goods outlets were ahead 4.3 percent this year but only 1.3 percent once price changes are taken into account.

For most retailers, 1987 developments have been weaker than anticipated and inventories have been growing faster than sales. With little improvement on the horizon, stores may be expected to take corrective action. Whether this will lead to price cuts to stimulate activity and clear shelves or reductions in orders or both, remains to be seen. Most stores will want to approach the key Christmas season with inventories in line.

RETAIL SALES OF WOMEN'S AND CHILDREN'S WEAR* BY TYPE OF OUTLET
(in millions of dollars)

Period	Total Sales	Department Stores	Women's Specialty Stores	Family Clothing Stores	Other Retail Outlets
1973	$27,974	$12,308	$9,336	$2,502	$3,828
1980	49,202	20,409	17,333	5,007	6,453
1981	55,077	23,188	19,318	5,745	6,826
1982	59,160	24,477	20,884	6,504	7,295
1983	64,973	26,460	23,262	7,273	7,978
1984	71,378	29,335	25,775	7,714	8,554
1985	77,173	30,765	28,985	8,301	9,122
1986	83,311	33,488	31,797	8,863	9,163
Jan-Aug'86	48,967	19,416	18,936	5,229	5,386
Jan-Aug'87	52,027	20,427	20,325	5,718	5,557

* Data include traditional products of the women's garment industry as well as millinery, furs, hosiery, gloves and other accessories.

SOURCE: ILGWU Research Department (benchmarked to 1967, 1972, 1977 and 1982 Census of Business).

In past years we have commented that sales of women's and children's apparel often showed strength when consumers were reluctant or unable to spend on homes, cars and other large items. This phenomenon has not been in evidence this year. Apparently, a large segment of the population did not have the wherewithal even for small purchases such as apparel.

Retail sales of women's and children's apparel and accessories rose 6.2 percent in the first eight months of 1987, compared to a year ago. Most of this gain is due to higher retail prices which moved up 4.9 percent in this period after being dormant for many years. In real terms the gain in sales of female apparel was only 1.2 percent. In both real and current values this has been the poorest apparel sales year since the 1974 recession.

Higher retail prices for fall apparel lines will further cut into the ability of lower income consumers to spend on apparel and will exacerbate the current softness in sales. The jump in retail prices of women's and children's wear far exceeded those at wholesale. The comparable producer price index has risen only 1.3 percent this year. Retailers continued to enlarge their markups in an effort to boost profits.

As always, a number of cross currents were in evidence. Helping to keep sales of feminine apparel in the plus column was the return to shorter skirts and a companion need for suitable underpinnings. A somewhat frillier, more romantic look also encouraged some wardrobe updating.

On the other hand, the increased reliance on the "safe" styling of name brands and greater use of private labels, to the exclusion of smaller, more innovative sources, helps perpetuate sameness and does less to entice consumers. The increased use of foreign-made goods, with long lead times, also limits the ability of the retailer to adapt to quick moving fashion developments.

As throughout the retail sector, higher-priced lines tended to do better than those directed towards the mass market.

September sales data are not yet available, but are likely to show some improvement. Some back-to-school and other fall purchases were put off in August because of the late Labor Day this year and may have been shifted to the following month. The basic weakness will remain, however, while the underlying economic stagnation runs its course.

The largest gain in 1987 among the various outlets selling women's and children's apparel and accessories was the 9.4 percent advance in sales by family clothing stores. Women's specialty shops were next with an increase of 7.3 percent. Department store sales of female wear were ahead 5.2 percent, while those of other outlets rose only 3.2 percent.

PRODUCTION OF WOMEN'S AND CHILDREN'S WEAR

Activity in the domestic women's and children's wear industry edged higher in 1987 in spite of the relatively weak retail performance. With government data unavailable, preliminary estimates by the ILGWU Research Department indicate a gain of 0.3 percent in the industry's physical volume of output in the first eight months of 1987. This compares with a decline of 5.4 percent in 1986.

The recent activity must be viewed, of course, against longer range developments. Any optimism generated by this year's data should be tempered by the realization that industry activity is 22 percent below its peak in 1979.

With imports continuing to outpace consumption, the level of domestic output in 1987 appears to be a reflection of the temporary unsettled situation in the import market rather than a permanent sign of recovery (see Imports, below). Some retailers are hedging their supply sources and are taking advantage of the quicker delivery times on domestic goods. Some of the excess of supply over consumer demand is also accounted for by higher inventories.

Detailed analysis of 1987 production is not yet possible. The Census Bureau discontinued its monthly reports on production of selected items of adult apparel at the end of 1986. It has been replaced with a new quarterly report with product detail more in line with the categories used for import controls. Data for the first quarter of 1987 provide no basis for comparison with last year. This will first become possible when 1988 data are available.

Information from industry sources suggests that output of sweaters and other knit outerwear continued to advance throughout the year. Production of women's coats, suits, dresses, as well as skirts, blouses and other sportswear items have either held their own or edged ahead in recent months. Activity in children's wear and intimate apparel continued to lose ground.

Earlier this year the Census Bureau released its report on annual production and value of shipments data for our industry in 1986. Detailed historical statistics are shown in the Appendix table at the end of this report.

IMPORTS

Imports of women's and children's apparel continue to soar in 1987 despite signs of softening retail demand. Preliminary information through July show an 8 percent gain in imports of female garments made of cotton, wool or man-made fiber materials (measured in equivalent square yards of fabric used in their manufacture). All apparel imports rose 11 percent in the same period.

Although the tempo of import growth has been moderating as 1987 progresses, it still remains high.

In the first seven months of the year, the largest import gains were in women's and children's cotton garments, which were ahead of last year by 15 percent. Garments made of man-made fiber were up 4 percent. Wool garment imports declined 5 percent in the first seven months of 1987. Knit garment imports advanced 6 percent, while those of woven materials were ahead 9 percent.

Imports of women's and children's garments rose 25 percent in value in the first seven months of 1987 or three times as fast as the quantity. Some of this growth represents the impact of the lower value of the dollar. Most of it, however, stems from the inroads into higher priced segments of our market, the one area where 1987 consumer spending was relatively healthy.

These data do not include garments made of silk, linen and ramie, which only recently became subject to the Multifiber Arrangement (MFA). Government data

series have been revised to reflect the change in coverage of these fibers. The new series have been collected since August of 1986 and in time it will be possible to make historical comparisons.

Detailed breakdowns of women's and children's wear imports by country or by other characteristics are not readily available. Data for all apparel, however, offer interesting insights into import developments.

China has become the number one source of U.S. apparel imports, accounting for 15.9 percent of the 1987 total. Hong Kong is second with 14.5 percent. Taiwan and Korea are next with 14.1 and 13.1 percent respectively. In combination, the top four countries account for 57.6 percent of total apparel imports.

The Caribbean Basin Initiative (CBI) countries account for 7.1 percent of imports, while the European Community (EC) accounts for 2.7 percent of the total. Japan's role as a source of apparel for U.S. markets continues to decline and has accounted for only 1.5 percent of imports so far in 1987.

The most revealing information on the ineffectiveness of the U.S. government's control policies comes from data on imports in controlled categories, i.e.. where specific quotas apply. While controlled 1987 shipments from Taiwan, Hong Kong and Korea show small increases or even decreases, many other countries have managed to accomplish astronomical growth in controlled categories.

Such shipments have grown 33 percent from China alone. Typical growth rates in controlled goods are Indonesia -- 20 percent, Sri Lanka -- 26 percent, Bangladesh -- 63 percent, Mexico -- 37 percent and Philippines -- 13 percent.

This apparent growth can stem from four possible sources. First, addition of a new country-category control. Second, use by countries of "overhang", i.e., unused quota to suddenly boost shipments. Third, over-liberal granting of quota when the U.S. government places an item under control. Lastly, failure to tightly enforce existing quotas

Shipments not subject to control have, of course, grown even faster than their controlled counterparts. In the first seven months of 1987 they have soared over 20 percent. Typical growth rates for key exporting countries are: China -- 113 percent, Haiti and Dominican Republic -- 25 percent each, Turkey -- 172 percent, Bangladesh -- 182 percent, Malaysia 468 percent, Pakistan 21 percent. More of these uncontrolled categories should have been placed under quota.

Imports of apparel from the CBI countries so far in 1987 are ahead of 1986 by 28 percent. This is on top of a 34 percent increase between 1985 and 1986. Virtually unlimited access to U.S. markets is being permitted to garments made of U.S.-formed fabric and this is obviously encouraging heightened shipments.

In addition to U.S. manufacturers that have commenced such operations or announced intentions of doing so, a sizable number of Far Eastern firms have established a base in the Caribbean to get around quotas on their own products.

While the CBI countries do not have the virtually unlimited labor supply of the Far East, their low wage levels and absence of decent labor standards poses a distinct additional threat to our domestic industry and its workers. Ironically, many of the U.S. workers whose jobs are threatened have come to the

IMPORTS OF SELECTED WOMEN'S AND CHILDREN'S GARMENTS
(in thousands of units)

Product	Year 1982	Year 1983	Year 1984	Year 1985	Year 1986	Jan-June 1986	Jan-June 1987
Coats & jackets, cotton	18,935	18,528	23,085	24,892	26,804	13,107	15,933
" " " wool	2,229	3,276	4,343	5,001	5,637	1,622	1,934
" " " synthetic	39,915	42,645	43,578	42,325	47,660	20,852	23,881
TOTAL	61,079	64,448	71,007	72,217	80,101	35,581	41,748
Suits, wool	1,018	1,390	1,413	1,175	1,526	481	547
" synthetic	2,955	4,963	5,503	5,187	6,409	3,333	3,499
TOTAL	3,973	6,353	6,916	6,361	7,935	3,815	4,047
Dresses, cotton	9,397	12,280	16,063	17,798	20,547	13,637	16,110
" wool	415	1,022	2,109	1,741	2,321	509	386
" synthetic	13,798	21,599	25,626	30,401	36,144	18,785	20,826
" silk (non-ornamented)	1,563	2,385	3,304	3,218	3,013	1,414	587
TOTAL	25,172	37,286	47,101	53,159	62,025	34,345	37,911
Blouses, cotton	125,985	140,055	164,373	195,727	244,657	142,357	157,064
" wool	5,186	7,166	10,060	8,382	9,672	2,442	2,515
" synthetic	107,699	123,598	128,085	168,270	215,333	120,040	101,960
" silk (non-ornamented)	4,272	6,094	10,684	9,883	11,669	5,205	2,487
TOTAL (c)	243,142	276,913	313,203	395,382	490,093	276,010	269,048
Knit shirts (a), cotton	54,144	57,799	71,303	63,177	82,608	37,495	63,032
" " synthetic	137,109	170,522	158,221	149,596	178,068	91,689	103,002
TOTAL	191,253	228,321	229,523	212,773	260,676	129,184	166,034
Sweaters (b), cotton	8,900	10,000	15,189	20,820	23,745	13,236	12,528
" wool	31,055	34,392	42,063	44,338	41,387	12,047	12,599
" synthetic	115,244	128,981	136,211	145,850	148,398	64,315	69,159
TOTAL (c)	161,556	187,622	242,638	325,956	350,108	162,713	157,880
Skirts, cotton	14,740	19,530	25,501	27,495	37,767	24,646	34,450
" wool	1,556	2,933	4,206	5,224	8,309	1,920	1,717
" synthetic	7,038	13,980	15,685	18,254	32,614	17,159	19,322
TOTAL	23,334	36,443	45,392	50,973	78,689	43,725	55,489
Slacks & shorts, cotton	99,845	140,596	149,269	157,908	188,055	103,715	111,952
" " " wool	1,552	2,200	3,131	4,990	4,433	1,127	1,080
" " " synthetic	107,224	97,166	112,308	136,832	161,382	88,922	87,157
TOTAL (c)	209,390	240,748	265,970	301,234	354,738	194,362	200,420
Playsuits, cotton	23,157	24,100	34,631	40,212	46,171	26,033	31,771
" synthetic	7,126	9,493	14,144	16,428	26,707	15,399	14,506
TOTAL	30,283	33,593	48,776	56,639	72,878	41,432	46,277
Raincoats (b), cotton	2,044	2,332	3,927	2,440	2,188	869	812
" synthetics	4,578	4,445	7,534	9,406	10,836	3,660	4,858
TOTAL	6,623	6,777	11,460	11,846	13,024	4,529	5,670
Dressing gowns & robes, cotton	3,349	4,196	4,528	6,004	6,152	3,259	3,297
" " " " wool	8	10	20	41	29	3	2
" " " " synthetic	2,015	2,418	3,625	2,994	4,692	1,992	2,718
TOTAL (c)	5,406	6,689	8,270	9,193	11,067	5,352	6,038
Nightwear & pajamas, cotton	11,803	13,130	14,730	18,762	22,026	7,475	7,924
" " " synthetic	4,755	6,570	10,314	16,102	22,630	9,227	11,448
TOTAL (c)	16,585	19,742	25,111	34,981	44,780	16,772	19,410
Underwear, cotton	45,980	70,313	65,846	90,950	88,500	45,389	56,670
" wool	263	250	294	324	284	99	100
" synthetic	38,109	50,978	87,929	92,088	114,816	53,870	61,080
TOTAL (c)	84,654	121,857	154,855	184,700	206,260	99,962	119,089
Brassieres, cotton	1,640	3,244	2,800	9,180	7,753	5,220	3,714
" synthetic (c)	136,239	144,733	149,281	159,825	157,825	76,006	88,432
TOTAL	137,879	147,976	152,080	169,006	165,579	81,226	92,146
Girdles & corsets, cotton	23	38	68	110	457	222	375
" " " synthetic (c)	7,445	9,546	13,036	15,560	10,707	5,763	6,165
TOTAL	7,468	9,584	13,104	15,670	11,164	5,984	65404
Infants' sets (d), cotton & synthetic	35,999	43,964	61,054	72,648	79,880	36,982	46,607
Swimwear, synthetic	9,247	9,949	12,090	15,149	17,411	11,795	12,399
Tops & vests, cotton & synthetic	9,453	8,393	12,358	12,033	11,329	6,570	4,277
Body suits & shirts, synthetic	2,684	5,289	5,728	4,814	4,540	2,241	3,442
Coveralls (e), synthetic	908	1,165	1,514	2,668	3,698	2,278	2,994
Judo/karate suits, cotton & synthetic	273	293	476	1,027	746	468	383

(a) Excludes knit tops
(b) Men's, women's and children's
(c) Includes garments of silk and other fibers not shown separately
(d) Up to and including 2 years of age
(e) Includes overalls and jumpsuits

SOURCE: U.S. Bureau of the Census (imports for consumption)

United States from CBI countries to escape the very same sweatshop conditions now threatening their U.S. jobs.

Data on imports of specific items of women's and children's wear in the first half of 1987 indicate widespread gains. Of the 21 products for which data are available, 17 show increases this year. Imports of bodysuits increased 53 percent, while those of coveralls, knit shirts, skirts, infants' sets and rainwear were all ahead 25 to 31 percent.

Imports of underwear, coats and jackets, nightwear, brassieres, dressing gowns, playsuits and dresses advanced 10 to 19 percent. Increases of 3 to 9 percent took place in corsets, suits, swimwear and pants.

The remaining four items all declined. Sweaters and blouses were down 3 percent. Imports of judo suits were off 18 percent and those of tops and vests declined 35 percent.

The U.S. apparel industry today faces a perilous future. Last year, 52.6 percent of U.S. apparel demand was met by foreign-sourced goods. By the end of 1987 the penetration rate will approach 55 percent if present trends continue. At this rate our industry will lose its viability within a few short years.

The only action that can save the industry and its jobs is prompt enactment of the Textile and Apparel Trade Act of 1987. The bill has cleared the House and now awaits action in the Senate. There is no other way to reverse the obvious mind set of our government to give away our markets and ignore the rights and needs of American workers and business.

EMPLOYMENT, MANHOURS AND PAYROLLS

Employment in the women's and children's wear industry reached new lows in 1987 in the wake of a weak domestic market and soaring imports. For the first eight months of the year, production worker employment fell 0.8 percent. This came on top of a 0.2 percent decline in 1986. Compared to the peak year of 1973, employment is down by 28 percent, a loss of nearly 180,000 jobs in 14 years.

Because of the continued closing of apparel plants, and the diminution in the industry's work force, the occasional, but erratic, heightened demand for U.S.-made garments led to a 1.9 percent increase in the average hours worked per week in the first eight months of 1987. and to a 1.8 percent gain in the total hours worked. Weekly wages advanced 4.5 percent in this period, contributing to a 4.3 percent growth in the industry's payrolls.

Employment in one branch of the industry -- knit outerwear -- gained consistantly throughout 1987 and chalked up a cumulative increase of 7.0 percent in the first eight months of 1987. However, the gains have been weakening as the year has progressed, ranging from 11.0 percent in January to only 2.2 percent in August.

In other women's outerwear, encompassing a variety of sportswear items as well as washable service apparel, employment moved ahead 1.2 percent in the first eight months. Unlike knit outerwear, the situation improved as the months passed. Small declines in January and February were offset by later gains.

EMPLOYMENT, MANHOURS, AND PAYROLLS, WOMEN'S AND CHILDREN'S GARMENT INDUSTRY

AVERAGE EMPLOYMENT OF PRODUCTION WORKERS

Period	Coat, Suit Skirt	Dress	Blouse	Knit Outerwear (*)	Child. Outerwear	Other Outerwear	Corset, Brassiere	Underwear Nightwear	Knit Underwear (*)
1973	64,500	183,700	45,900	70,200	68,900	102,000	24,700	72,800	28,700
1980	57,100	127,900	54,100	59,400	55,100	120,400	13,900	62,100	26,700
1981	53,200	121,300	55,000	60,000	54,700	123,400	14,200	62,500	26,300
1982	47,900	110,900	52,200	55,400	52,000	117,700	12,100	58,600	24,200
1983	47,100	105,600	51,300	54,100	51,000	124,200	12,200	58,100	24,700
1984	42,400	96,600	50,000	57,000	53,900	134,400	12,300	58,300	23,300
1985	36,600	78,800	44,100	55,700	50,800	142,400	11,200	53,400	20,700
1986	35,600	72,800	41,700	61,100	51,000	146,800	10,800	53,100	19,900
Jan-Aug'86	35,100	73,700	41,600	59,900	50,900	146,500	10,900	53,200	19,900
Jan-Aug-87	35,300	70,700	41,500	64,100	48,000	148,300	9,800	50,600	19,600

MANHOURS OF PRODUCTION WORKERS (in millions)

Period	Coat, Suit Skirt	Dress	Blouse	Knit Outerwear (*)	Child. Outerwear	Other Outerwear	Corset, Brassiere	Underwear Nightwear	Knit Underwear (*)
1973	109.7	307.6	80.0	134.6	123.1	182.6	44.6	132.3	54.6
1980	97.1	202.6	92.7	114.2	97.9	209.2	24.1	113.4	49.4
1981	90.2	197.6	93.8	112.5	99.0	216.6	25.4	114.1	47.5
1982	78.1	179.9	89.7	101.7	92.1	199.9	20.4	102.8	41.9
1983	80.1	173.1	88.9	100.6	91.4	222.4	21.8	106.4	46.3
1984	72.7	160.1	86.8	106.5	98.7	241.1	22.7	107.6	43.6
1985	62.7	133.2	76.8	105.1	93.0	255.0	20.2	98.3	38.0
1986	62.0	124.0	73.6	117.4	94.9	260.6	19.1	99.5	39.1
Jan-Aug'86	40.7	83.9	49.0	76.8	63.5	173.6	12.9	66.5	26.1
Jan-Aug-87	42.3	84.3	49.7	84.8	60.0	180.3	11.6	64.1	26.1

PAYROLLS OF PRODUCTION WORKERS (in millions of dollars)

Period	Coat, Suit Skirt	Dress	Blouse	Knit Outerwear (*)	Child. Outerwear	Other Outerwear	Corset, Brassiere	Underwear Nightwear	Knit Underwear (*)
1973	$347.1	$906.5	$209.6	$389.0	$314.3	$481.7	$120.1	$321.9	$144.5
1980	489.2	953.7	399.0	535.6	417.9	930.0	105.9	464.1	225.4
1981	490.9	1,002.7	436.9	567.4	450.6	1,032.7	121.3	508.5	234.5
1982	444.0	946.5	427.8	534.1	436.2	991.7	103.9	476.3	216.6
1983	476.7	953.7	436.1	555.4	438.5	1,129.6	115.1	511.4	246.6
1984	448.8	912.1	439.2	615.9	488.8	1,261.0	126.4	535.4	241.8
1985	404.0	772.4	394.3	636.8	471.2	1,361.5	118.6	508.6	217.0
1986	400.2	726.3	374.5	745.6	489.9	1,417.1	118.0	519.4	230.3
Jan-Aug'86	262.2	488.5	250.0	482.3	327.5	938.6	79.1	346.9	153.1
Jan-Aug-87	274.9	507.3	249.9	545.1	314.5	1,004.3	74.3	340.9	159.2

* Men's and women's garments

SOURCE: U.S. Bureau of Labor Statistics and ILGWU Research Department estimates

In all other branches of our industry, 1987 employment is down in comparison with last year's numbers. Blouse employment was off 0.4 percent while that in coats, suits and skirts was down 0.7 percent. Knit underwear declined 1.6 percent. The number of production workers in dresses and underwear and nightwear was down 4.0 percent and 4.9 percent respectively. The deepest cuts were 5.7 percent in children's outerwear and in corsets and brassieres which dropped 10.5 percent.

Average weekly hours worked in 1987 were up in all branches of the industry, with the exception of children's outerwear and corsets and brassieres. Average weekly earnings were ahead in all branches. Total hours worked were higher than last year in all but children's outerwear, corsets and brassieres, underwear and nightwear and knit underwear. Payrolls increased, except for children's outerwear, corsets and brassieres and underwear and nightwear.

September data are not available for women's and children's wear branches, but only for the apparel industry as a whole. Sluggishness has continued. A small increase in employment was more than offset by a decline in hours worked.

This August, the unemployment rate in the apparel industry stood at 8.6 percent, compared to 9.4 percent last year. Workers dropping out of the labor force contributed to the decline. Apparel unemployment continues to be well above the national average.

HOURLY EARNINGS

Data on hourly earnings in the women's and children's apparel industry are collected and published by the U.S. Bureau of Labor Statistics. They include workers in unionized as well as non-union shops. The data exclude fringes.

Hourly earnings data for our industry have been very erratic in recent years as imports make greater and greater inroads. Earnings are held down by competitive factors and need to work on small lots. Shifts in the products made in a given industry and disproportionate dislocation of crafts also contributes to changes in hourly earnings. In addition, earnings in ILGWU shops reflect the gains negotiated in collective bargaining agreements.

The largest gains in hourly earnings this August, compared to last year, were in intimate apparel. Corset and brassiere earnings were ahead 32 cents, knit underwear 21 cents and underwear and nightwear 18 cents per hour.

In the outerwear field, developments varied widely. Hourly earnings in dresses rose 25 cents over last year while those in children's outerwear and other outerwear (encompassing a variety of sportswear items and service apparel) rose 11 cents. Knitted outerwear earnings rose 3 cents and those in coats suits and skirts advanced 1 cent.

Blouse industry earnings declined 9 cents an hour bewtween August 1986 and August 1987.

AVERAGE HOURLY EARNINGS, WOMEN'S GARMENT AND OTHER SELECTED INDUSTRIES

Industry	Aug. 1981	Aug. 1982	Aug. 1983	Aug. 1984	Aug. 1985	Aug. 1986	Aug. 1987
WOMEN'S GARMENTS							
Coats, Suits, skirts	$5.56	$5.73	$6.00	$6.18	$6.54	$6.48	$6.49
Dresses	5.15	5.22	5.57	5.78	5.75	5.78	6.03
Blouses	4.66	4.78	4.91	5.09	5.06	5.10	5.01
Knitted outerwear*	5.09	5.24	5.55	5.82	6.07	6.33	6.36
Children's outerwear	4.57	4.71	4.78	4.92	5.05	5.19	5.30
Other outerwear	4.75	4.95	5.05	5.19	5.31	5.47	5.58
Corsets, brassieres	4.80	5.10	5.37	5.58	5.91	6.09	6.41
Underwear, nightwear	4.47	4.60	4.79	4.94	5.17	5.19	5.37
Knitted underwear*	4.98	5.19	5.34	5.55	5.65	5.87	6.08
MEN'S CLOTHING							
Suits, coats	5.68	5.89	6.18	6.58	6.56	6.58	6.63
Shirts, nightwear	4.44	4.61	4.72	4.85	4.97	5.13	5.25
Separate trousers	4.57	4.86	5.03	5.16	5.25	5.21	5.24
Work clothing	4.43	4.75	4.90	5.07	5.29	5.47	5.51
ALL MANUFACTURING	8.03	8.50	8.78	9.16	9.50	9.68	9.86
NON-DURABLE GOODS	7.23	7.75	8.06	8.38	8.70	8.94	9.11
DURABLE GOODS	8.59	9.07	9.33	9.70	10.06	10.22	10.41
Automobiles	10.90	11.67	11.93	12.63	13.28	13.29	13.42
Primary metal industries	10.99	11.49	11.30	11.38	11.62	11.74	11.92
Printing, publishing	8.25	8.80	9.13	9.45	9.76	10.02	10.31
Rubber and plastic products	7.23	7.65	8.02	8.29	8.52	8.77	8.90
Cotton fabrics	5.95	5.96	6.44	6.71	7.05	7.39	7.57
Silk and synthetic fabrics	6.00	6.18	6.63	6.95	7.14	7.48	7.70
Wool fabrics	5.81	6.16	6.59	6.83	7.11	7.37	7.56
COAL MINING	12.09	12.88	13.89	14.91	15.11	15.45	15.69
BUILDING CONTRACTORS	9.90	10.60	10.66	10.91	11.24	11.40	11.85

* Men's and women's garments
SOURCE: U.S. Bureau of Labor Statistics

COMMENTARY

"The central problem now facing the world economy is not the next recession," writes economist Lester Thurow in The Washington Post, "but a prolonged slowing of the world's economic train." (July 26, 1987) This slowdown, he adds, has been in process for fifteen years. In the 1970s it was ascribed to higher oil prices and the need to fight inflation. The 1980s, however, have witnessed even slower growth, "despite falling oil prices and no inflation."

Thurow says that "the world economy is running out of steam", that "we are already in unknown territory" and that "the way into the next recession -- when

it comes -- may be so unfamiliar that we will not realize where we're heading." Thus, "the climb back to prosperity is likely to be unusually difficult."

This commentary will seek to identify some of the still relatively unfamiliar paths into the next recession, among them an overview of important changes in the recent American economic scene, especially the new factors in the current recovery. Mainstream thinking basically ignores these new phenomena. Their analysis reflects two distinct views: that the only way out of the current deficit and trade problems is a recession or that all is rosy on the American economic scene.

An examination of the American economy during the period under discussion shows that,

* the economy has been essentially stagnant since the mid-1970s;

* recoveries from recessions in these years have been weaker and weaker;

* the U.S. economy is operating in uncharted waters.

The characteristics that distinguish this recovery from previous ones are the sharp rise in the federal budget deficit and the highest peacetime military buildup. The hugh run-up of budget deficits and the growth of the national debt -- it has more than doubled in the past six years -- also reflects the magnitude of military spending and tax laws that have favored the wealthy.

These interrelated factors have stimulated rapid debt growth and, what is most significant, speculation on a scale never before experienced in our economy. Speculation has resulted in the vast upward movement of the stock prices, fueled by tax cuts that favor the wealthy, the plethora of vastly overpriced leveraged corporate buyouts, financed by junk bond philosophy, and massive speculation in international currencies discussed in earlier reports.

Speculation has led to an explosion in the demand for luxuries and has provided the underpinning of the recovery. It has replaced the improvement in living standards through increased general consumption as a key to growth.

However, the speculative boom, which has financed much of the current growth is also the recovery's weakest link. The bubble is already so out of control that it cannot continue to grow without bursting at some time as have previous, if milder, speculative booms. Military spending, budget deficits and speculation are so intertwined that, if either of the first two declines or the bubble bursts, we may be faced with a breakdown of colossal proportions.

Mainstream thinking pays little or no attention to these new factors or to their interrelationship. There is, as noted, however, a growing conclusion on the part of what might be termed more realistic observers of the economic scene that the economic policies of the Reagan Administration have failed, making recession inevitable, regardless of such perceived consequences as inflation or financial chaos.

For example, recently a number of articles on recession have appeared in the pages of The Wall Street Journal. A columnist for that paper observes,

(September 21, 1987), after thirty months of a government-orchestrated weakening of the dollar to reverse the trade imbalance, that,

> The summer's sobering trade numbers give new credence to the view that the nation's disturbing trade gap isn't likely to narrow significantly until there's a recession.... The heavy debt burden of the U.S. corporations and Third World nations, as well as the continued weakness of the banking system, raise fears that a recession now would quickly snowball into financial disaster.

In his view, on the one hand a recession is the only way to reverse the trade imbalance. On the other hand, a recession could "quickly" result in "financial disaster." Having posed his dilemma, the writer leaves it at that, in part, at least, because he does not conceive of the role of speculation in both the trade and financial pictures. One might conclude that to him recession is necessary and financial disaster inevitable.

To reinforce his conclusion, he quotes Professor Charles Kindelberger of the Massachusetts Institute of Technology, one of the nation's leading international trade theorists, as saying, "I've been looking for improvement and haven't seen it, and I'm beginning to get discouraged. This may mean we have to have a recession" [before the trade deficit is reversed].

But the writer has yet another dilemma. Noting that "most economic models have been predicting the turn [in the trade balance] for months to no avail", he adds that, while "further declines in the dollar might be helpful",

> ... the slump in the financial markets that accompanied the dollar's August drop suggest further declines may not be possible without creating new fears of inflation.... This means the trade imbalance may well persist -- and the debt burden may continue to grow -- until, sooner or later, the economy falls into recession.

So, on the third try the fear is inflation as a consequence of recession. And once again, recession, "sooner or later", is welcomed as the only way to deal with the economy's problems. There is, in his mind, no other answer, no other alternative to recession.

This writer's views have been quoted at some length because they are among the more thoughtful comments on the economic scene. Yet, his analysis is traditional. He seeks answers to the economy's troubles as though there are no changes in the economy and past solutions are usable, without regard to the intensity of a future recession brought on by new developments.

Another Wall Street Journal writer believes that, in terms of general living standards, the economy is already in recession. (September 10, 1987) Putting aside the generally accepted definition of a recession -- when real Gross National Product declines for at least six months in a row -- the writer notes that when real GNP rose in the second 1987 quarter real per capita disposable (after tax) income fell.

Citing data on earnings of nonfarm production workers, he points out that they have dropped to the lowest level since the last recession. A similar decline has taken place in hourly wages, he notes, adding, "It's not that paychecks are

actually shrinking. Raises simply aren't keeping pace, on average, with inflation." He concludes that,

> In all, the data suggest that the general living standard has begun to drop.... However steadfastly such familiar gauges as real GNP may continue to advance, in living standard terms a recession appears to have set in -- more likely more than a year ago.

This view is a rare example of paying attention to what sector in our economy suffers most from slowdown and recession. It is clearly not in keeping with the outlook of most of the press and the ideologues of the Administration. For example, Fortune (October 12, 1987) says that "the quarters ahead still shine" and "the long-lived expansion looks secure." Yet, as Thurow puts it,

> Modern human beings like to think that economic progress is inevitable and that prolonged stagnation or decline is simply impossible. But human history is marked by many more years of stagnation than of growth.

Recognition of an impending recession of some magnitude does not provide sufficient background for an effective determination of the problems confronting our economy. Reference has been made to the new elements in our economy, among them increased speculation, an unprecedented deficit-based budget and a huge military buildup. Perhaps there are others as well. To ignore them or to pay insufficient attention to what is new or to engage in wishful thinking makes for inadequate understanding of what has been created and where our economy is going.

History tells us that speculative booms or boomlets run out of steam. Although the current boom has made possible creation of ever-larger debt and the military buildup, speculation also has a life of its own. Based largely on air, which emphasizes its instability, it can collapse at any time, leading to economic dislocations the magnitude and extent of which can only be guessed.

If these new phenomena have indeed become, as we have proposed, the central elements in our economy, an understanding of their effects is critical in determining policy measures to try to ease their consequences and plan for the recovery. Only when appraisal of the economy leads to a recognition of what is new can labor and its allies evolve a program to meet the challenges we face.

APPENDIX

UNIT PRODUCTION AND NET VALUE OF SHIPMENTS, WOMEN'S AND CHILDREN'S GARMENTS

UNIT PRODUCTION (millions of garments)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
WOMEN'S AND MISSES'											
Coats	21.9	21.4	20.7	20.8	19.7	16.4	13.5	13.1	13.3	11.6	11.6
Suits ex. pantsuits	12.0	14.4	12.2	12.0	11.3	9.4	9.5	9.5	8.2	9.3	5.4
Pantsuits	25.9	26.4	24.1	17.8	10.9	6.8	5.0	4.7	3.8	3.7	6.0
Jackets	26.0	27.0	23.3	26.4	33.4	42.5	45.4	42.6	36.2	28.9	27.5
Dresses	227.5	248.1	252.3	252.5	250.3	209.6	189.0	179.9	174.9	166.6	148.6
Blouses	288.0	323.9	356.0	406.8	402.3	390.5	396.2	407.7	356.5	334.9	321.1
Knit sport shirts	119.6	154.3	157.9	162.5	161.2	138.6	161.6	133.9	128.2	107.2	104.5
Sweaters	92.2	95.3	90.0	78.2	77.8	89.7	86.0	87.1	94.0	107.6	89.2
Skirts	58.1	59.9	70.8	75.3	86.1	114.3	118.8	114.8	110.3	107.9	109.7
Slacks	205.6	196.9	197.9	213.2	218.6	207.8	208.3	213.4	201.1	197.3	163.7
Dungarees & jeans	82.9	80.4	65.7	90.1	100.8	120.5	107.3	115.3	107.5	110.9	113.3
Playgarments	29.4	29.7	32.1	33.0	30.2	29.6	52.5	50.7	49.1	34.3	38.1
Bathing suits	27.2	30.2	32.9	35.8	32.8	39.6	41.9	38.0	42.8	38.4	40.0
Raincoats	8.7	6.9	6.3	6.7	6.9	6.0	5.3	4.5	5.2	4.5	3.3
Washable service app.	29.2	38.9	39.9	41.4	37.2	36.9	45.2	37.4	40.5	41.1	36.5
Corsets	51.8	53.1	49.2	47.5	48.1	47.4	43.9	42.3	37.8	36.6	36.5
Brassieres	207.1	209.6	206.5	216.1	216.4	216.0	203.5	218.8	201.1	199.0	209.7
Slips & petticoats	80.6	80.9	83.7	86.0	75.9	69.8	65.8	68.0	67.8	60.8	54.2
Panties	524.2	484.0	482.5	494.9	561.8	591.7	433.0	445.1	448.3	418.3	402.7
Nightgowns & pajamas	163.1	174.2	180.9	164.7	162.7	167.9	156.8	145.6	143.8	133.4	126.7
GIRLS', CHILDREN'S AND INFANTS'											
Coats	7.2	5.8	5.1	5.4	4.1	4.2	3.2	3.0	3.5	3.0	1.5
Jackets	7.9	7.7	6.8	6.6	7.4	8.5	7.8	8.6	8.4	8.1	7.5
Dresses	79.3	80.1	80.3	83.0	87.4	81.2	77.3	83.7	87.6	79.2	79.8
Blouses	49.6	52.4	60.0	56.9	57.5	55.3	59.5	57.8	55.3	56.5	58.7
Knit sport shirts	154.9	152.0	153.5	148.4	148.3	151.9	154.5	150.0	143.5	146.6	152.2
Sweaters	16.1	21.7	18.2	15.9	16.3	15.6	14.0	15.0	19.2	17.8	20.4
Skirts	7.3	5.9	8.5	9.0	10.4	7.6	13.8	11.8	9.4	10.2	9.0
Dungarees & jeans	36.1	40.9	40.5	40.7	50.4	58.1	43.5	48.2	48.9	41.2	35.6
Slacks & shorts	84.4	76.0	76.2	84.9	88.6	92.4	94.0	92.7	105.7	112.9	116.0
Playgarments	117.0	118.4	147.2	142.8	142.2	130.9	134.2	124.7	114.9	103.5	113.8
Bathing suits	10.4	10.7	11.3	10.9	10.3	10.8	10.4	9.5	11.5	9.3	8.7
Raincoats	0.5	0.4	0.5	0.4	0.5	0.4	0.4	0.2	0.1	0.2	0.1
Slips & petticoats	6.6	5.5	5.8	6.6	6.6	6.3	4.8	5.2	4.5	4.8	4.2
Panties	196.0	170.3	172.9	176.5	176.1	167.0	153.0	147.6	150.7	140.2	124.8
Nightgowns & pajamas	89.5	97.1	102.2	95.7	99.6	90.6	85.5	95.3	90.3	86.8	79.2

VALUE OF SHIPMENTS, WOMEN'S AND CHILDREN'S APPAREL (millions of dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
TOTAL	$14,279	$15,659	$17,490	$19,062	$20,606	$22,100	$22,698	$23,566	$22,813	$22,084	$21,325
WOMEN'S OUTERWEAR											
Coats	699	687	774	894	852	776	685	699	784	655	669
Suits, ex. pantsuits	272	378	381	376	377	361	388	403	369	357	296
Pantsuits	332	376	360	247	163	111	103	101	88	80	118
Jackets	290	328	369	504	727	1,017	1,129	1,146	995	867	801
Dresses	2,949	3,141	3,743	3,770	3,706	3,514	3,391	3,405	3,415	3,352	3,080
Blouses and waists	1,371	1,574	1,916	2,251	2,468	2,713	2,855	3,071	2,608	2,464	2,455
Knit sport shirts	475	608	636	676	710	684	877	858	768	783	792
Sweaters	469	507	527	466	480	560	579	612	708	735	749
Skirts	449	503	689	815	1,021	1,329	1,433	1,520	1,350	1,374	1,429
Slacks	1,190	1,232	1,439	1,545	1,705	1,816	1,878	1,793	1,761	1,836	1,510
Dungarees and jeans	461	515	427	684	878	1,227	1,056	1,342	1,336	1,197	1,230
Playgarments	136	166	152	139	163	141	227	221	233	167	192
Bathing suits	173	193	231	264	307	399	458	440	498	481	499
Raincoats	165	167	176	208	223	226	203	194	202	182	107
Washable service app.	166	222	246	247	238	246	277	271	295	293	275
Other outerwear	760	849	927	1,036	1,071	1,113	1,177	1,243	1,229	1,147	1,081
CHILDREN'S OUTERWEAR											
Coats	80	64	55	63	59	63	39	42	48	40	18
Jackets	42	47	41	38	46	68	63	69	57	54	63
Dresses	343	358	377	436	504	509	557	595	630	595	571
Blouses and waists	115	138	170	179	196	225	241	235	242	243	262
Knit sport shirts	259	274	305	335	398	462	478	467	480	482	521
Sweaters	41	53	50	61	64	65	68	72	88	94	106
Skirts	32	30	44	49	60	49	66	57	45	48	55
Slacks & playgarments	507	528	566	606	745	754	811	847	848	855	835
Dungarees and jeans	115	141	142	157	209	234	234	246	224	186	201
Bathing suits	31	37	43	43	41	45	50	45	58	45	44
Raincoats	5	4	5	6	8	7	7	5	2	2	1
Other outerwear	161	153	162	169	181	197	212	215	207	203	200
INTIMATE APPAREL											
Corsets & brassieres	705	747	752	789	852	901	923	997	921	976	1,017
Undergarments	671	704	782	895	971	1,016	989	1,056	1,066	1,042	990
Nightwear	816	935	1,003	1,089	1,182	1,273	1,240	1,300	1,258	1,249	1,157

(A) Includes sweatshirts
(B) Includes playsuits, shorts, pedal pushers and other playgarments

SOURCE: U.S. Bureau of the Census data benchmarked to the Census of Manufactures